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FOLLOW-UP TO THE WORLD SUMMIT FOR SOCIAL DEVELOPMENT

Priority theme: Productive employment and sustainable livelihoods

Report of the Secretary-General

1. In its resolution 1996/7, the Economic and Social Council endorsed the agenda and multi-year programme of work of the Commission for Social Development, including the priority theme for the Commission's 35th session: "Productive employment and sustainable livelihoods". As part of the priority theme, the Commission will consider the following specific topics: (a) the centrality of employment in policy formulation, including a broader recognition of work and employment; (b) improving access to productive resources and infrastructure; and (c) enhanced quality of work and employment. To assist the Commission in its deliberations, the Secretary-General transmits to the Commission a report prepared by the task manager, the International Labour Office, with contributions from the United Nations system.

2. The topics identified need to be viewed within a broader social, economic and political context. The consequences of high levels of unemployment are well-known: poverty, an issue of global concern on which the World Summit for Social Development[1] helped to focus attention, is often tied to high levels of unemployment and underemployment. High and persistent levels of unemployment not only cause a loss of potential output but also can create a sense of frustration and lost esteem in individuals and families which may lead to personal and social disintegration. Of central importance is Commitment 3 of the Copenhagen Declaration on Social Development, which commits Member States "to promoting the goal of full employment as a basic priority of our economic

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and social policies, and to enabling all men and women to attain secure and sustainable livelihoods through freely chosen productive employment and work".[2]

3. The attention of the Commission is drawn to several interlocking themes:

(a) Full employment is well established in the goals and objectives of the United Nations system: the Charter of the United Nations, in Article 55, makes explicit reference to the need to promote, inter alia, "higher standards of living, full employment, and conditions of economic and social progress and development"; the Declaration of Philadelphia in 1944 contained a strong commitment to the pursuit of full employment; the Articles of Agreement of the International Monetary Fund refer to the promotion and maintenance of high levels of employment among its objectives. Yet, particularly during the past two decades, achieving the goal of full employment has generally received low attention. A central challenge for Governments is how to fulfil the commitment made at Copenhagen to restore full employment to the centre of economic and social policies. The Commission can serve as a forum for the exchange of experience Governments and the private sector have had in the pursuit of full employment. Attainment of the objective of full employment also requires an understanding of the obstacles to giving a higher priority to the goal of full employment.

(b) Policy makers generally agree that to increase employment opportunities, savings and investment levels and hence economic growth have to be raised worldwide. There is a close linkage between employment and economic growth. In many countries, however, priority has been accorded to containing inflation, public spending and fiscal deficits. The increasing pace of globalization and liberalization has given the objectives of competitiveness and cost-cutting greater priority. Financial liberalization and the rapid global integration of financial markets have induced policy makers to be increasingly cautious; the financial community is particularly sensitive to the fear of inflation even though there is currently little evidence of a resurgence of inflation. Only a few countries have been able, through a judicious combination of liberalization and of public policy combined with increased savings and investment in both the public and the private sectors, to achieve high economic growth and job creation.

(c) Promoting full employment globally will require strengthened international economic cooperation. In recent years such cooperation has focused on issues such as opening of markets, providing finance for structural adjustment programmes, maintaining fiscal and monetary discipline, and promoting environmental sustainability. Attention must also be given to increasing global levels of savings and investment for accelerated growth, and channelling a significant portion of these resources to parts of the world which have not benefited from robust economic growth. This approach would not absolve individual countries from adopting policies to improve their macroeconomic balances, to strengthen the efficiency of their public sector and to enhance the framework for a dynamic private sector.

4. At the substantive session of the Economic and Social Council in 1997, the theme for the high-level segment will be "Fostering an enabling environment for development - financial flows, including capital flows, investment and trade".

In light of the theme chosen for the high-level segment, the Commission may wish in its deliberations to highlight the social and employment consequences of actions aiming to foster an enabling environment for development.

Notes

[1] See Report of the World Summit for Social Development, Copenhagen, 6-12 March 1995 (United Nations publication, Sales No. 96/IV.8).

[2] Ibid., chap. I, resolution 1, annex I, sect. C.

Annex

REPORT PREPARED BY THE INTERNATIONAL LABOUR ORGANIZATION ON PRODUCTIVE EMPLOYMENT AND SUSTAINABLE LIVELIHOODS

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I. INTRODUCTION

1. Over the past six years, the United Nations has convened eight global conferences (the World Summit for Children, the World Conference on Education for All, the United Nations Conference on Environment and Development, the World Conference on Human Rights, the International Conference on Population and Development, the World Summit for Social Development, the Fourth World Conference on Women, and the United Nations Conference on Human Settlements (Habitat II)). The United Nations system has embarked on a unified follow-up to these global conferences, seeking to strengthen collaboration among United Nations organizations in their programmes to assist countries in achieving conference goals and the eradication of poverty. The present paper deals with the follow-up to Commitment 3 of the Copenhagen Declaration on Social Development,[1] a commitment to promoting the goal of full employment. It is important to note, however, that there are complementarities in the follow-up to all these global conferences and the present paper has to be situated in this broad context.

2. The Programme of Action listed a vast array of actions to be taken by Governments and civil society in support of the goal of expanding productive employment and reducing unemployment. These were grouped under five main areas of action, namely:

(a) Ensuring the centrality of employment in policy formulation;

(b) Education, training and labour policies;

(c) Enhanced quality of work and employment, including the safeguarding and promoting respect for basic workers' rights;

(d) Enhanced employment opportunities for groups with specific needs;

(e) Promoting a broader recognition and understanding of work and employment.

3. Since then a number of activities directed at giving effect to the parts of the Programme of Action relating to employment and sustainable livelihoods have been initiated. A major activity has been that of the Administrative Committee on Coordination (ACC) Task Force on Employment and Sustainable Livelihoods, which was set up in October 1995 to define a framework for coordinated inter-agency action at the country level in this field. To this end, the Task Force has undertaken employment policy reviews in a sample of six countries, chosen to represent the diversity of circumstances faced by economies in different regions and at various levels of development, with a view to providing a sound empirical basis for defining the framework and modalities for inter-agency efforts at the country level. These country reviews are being completed and a synthesis report based on them will be submitted to the April 1997 session of the ACC.

4. Another significant development was the discussion on "Employment policies in a global context" in the 83rd session of the International Labour Conference,

held in June 1996. The conclusions of this discussion that were adopted by the Conference represent the consensus reached by the representatives of Governments and of worker and employer organizations from countries across the world at all levels of development. These conclusions strongly endorsed the objective of full, productive and freely chosen employment and defined a framework for policies to achieve this. That framework covered the creation of an enabling global environment for employment growth, policies to enhance the adaptability of the labour market and the efficient use of human resources applicable to countries at all levels of development, as well as policies specific to developing, transition, and industrialized countries. Since this framework will now guide policy development by Governments and the social partners in ILO member States, the conclusions of the conference discussion can be seen as a significant step in advancing the implementation of the Copenhagen Programme of Action.

5. Against this background, the objective of the present paper is to consolidate further the follow-up process on employment and sustainable livelihood by putting up for discussion in the Commission an up-to-date review of a wide range of employment policy issues in developing, transition and industrialized countries. In doing so it will be bringing to the attention of the Commission the outcome of recent studies and discussions on the subject. The paper also seeks to contribute to the work of the Commission in developing a common framework for the implementation for conference outcomes and establishing a coherent system that would result in clear policy recommendations for Governments and international actors. This is reflected in the attempt in the paper to focus on key employment policy issues within a coherent overall framework of economic, social and environmental policy. This approach, insofar as it succeeds in translating the myriad actions listed in the Programme of Action into a practicable core of strategic policy interventions, will make the task of monitoring implementation more manageable and effective. In addition the paper has sought to present specific policy recommendations in areas where it judges that a broad convergence of views exists but, as will no doubt be appreciated, divergent views continue to exist on a number of other important issues. On these latter issues the major contending viewpoints are presented in lieu of recommendations.

II. OVERALL FRAMEWORK FOR EMPLOYMENT POLICY

6. All economic and social policies assume meaning only in relation to their objectives. These objectives have to be defined as clearly and precisely as possible. With respect to employment policy the objective should be the attainment of full employment. Elaborating on Commitment 3 in the Copenhagen Declaration, paragraph 4 of the "Conclusions concerning the achievement of full employment in a global context: the responsibility of Governments, employers and trade unions" of the 1996 International Labour Conference reaffirmed that "the objective of full, productive and freely chosen employment through higher, sustained economic growth should remain a major goal of economic, social, and employment policies as Governments, employers' and workers' organizations adapt to a rapidly changing global market. High and productive levels of employment through enterprise development are fundamental means of combating poverty, of ensuring equity, of meeting peoples' aspirations for participation in economic

and social life, and for preserving social cohesion".[2] Paragraph 7 of the Conclusions also maintains that "the objective of full employment is valid for all countries although the concept may have to be interpreted differently for developing countries. Since in many of these countries, only a minority of the employed are in formal wage employment in the modern sector (the rest being in peasant farming, casual and contract labour or low productivity self-employment in the informal sector), progress towards full employment must be measured by using a combination of indicators. These include the rate of growth in modern-sector employment and changes in real average earnings and the degree of open and disguised unemployment and underemployment in the rural and informal sectors".[2] Viewed in this way according to the same paragraph, "full employment provides a notion around which policies can be formulated for raising both the volume and the quality of employment and, thereby, for ensuring that economic growth is equitable and poverty-reducing".[2]

7. That interpretation of the concept of full employment in developing countries effectively reconciles the apparently dichotomous concerns over "employment" on the one hand and "sustainable livelihoods" on the other (reflected in the title of this paper and the Copenhagen Declaration and Programme of Action). There is in fact no dichotomy since, in line with long-standing usage both internationally and nationally, the term "employment" covers not only regular wage employment but also all income-generating activities such as self-employment, including the rural and informal sectors. It does therefore cover livelihood although, as will be discussed below, the concept of sustainable livelihoods has wider implications.

8. The endorsement of the objective of full employment by the Social Summit, as well as by the International Labour Conference of 1996, has been particularly heartening in view of the growing strand of scepticism over the feasibility of attaining that objective in both academic and policy-making circles. This scepticism has sprung from a variety of sources: that high unemployment represents a voluntary economic equilibrium that is impossible to reduce without triggering off accelerating inflation; that rapid labour-saving technological change has ushered in an era of "jobless growth" and "the end of work"; and that heightened economic competition in the wake of the globalization of the world economy has emasculated the capacity of Governments to influence the level and quality of employment. However, a critical examination of the empirical bases for such claims in a recent ILO report, World Employment 1996/97, found them to be seriously wanting. In the light of this the report argued that, with sufficient political will and the sustained implementation of a comprehensive set of policies, full employment remains an attainable objective.

9. A core of these policies that is common to countries at all levels of development include the following:

(a) At the international level it will be important to sustain progress towards a more open and rules-based world economy characterized by freer flows of trade and foreign direct investment and increased financial flows. This will provide the basis for a more efficient allocation of resources in the world economy and thus higher growth from which all countries can potentially benefit through pursuing the right policies.

(b) Creating a stable political, economic and social environment since this is a requirement for sustained economic growth and employment creation. This includes a stable macroeconomic framework and "a legal and institutional framework that guarantees human rights, including freedom of association, secure property rights and the enforceability of contracts"[2] (para. 9 of the Conclusions).

(c) Providing a policy environment that provides the right incentives for productive investment, for structural change and for increased international competitiveness, while maintaining appropriate levels and quality of environmental assets. This should be supported by public action to promote improvements in the quality of infrastructure, in the skill level of the labour force and in innovation and research and development.

(d) Implementing labour market policies that facilitate worker adjustment and provide a safety net to those adversely affected by economic change; that promote skill development and increased employability; and that promote a sound and cooperative industrial relations system geared towards the raising of productivity and achieving higher non-inflationary growth.

(e) Implementing policies to protect vulnerable workers, to facilitate the reintegration of the long-term unemployed and the least endowed workers in terms of skills and assets into employment; to eliminate discrimination in the workplace and in access to employment; and to improve the quality of employment. In this connection it is appropriate to cite the injunction in the Copenhagen Declaration to "pursue the goal of ensuring quality jobs, and safeguard the basic rights and interests of workers and to this end, freely promote respect for relevant International Labour Organization conventions, including those on the prohibition of forced and child labour, the freedom of association, the right to organize and bargain collectively, and the principle of non-discrimination".[3]

(f) Developing tripartite forms of social dialogue among Governments, workers' and employers' organizations in support of employment generation as a priority item on the national policy agenda and promoting labour management cooperation which contributes to productivity enhancement and job creation.

10. In the pursuit of these policies it is important to recall the environmental sustainability aspects of growth contained in Agenda 21[4] and reiterated in the Copenhagen Declaration and Programme of Action. Economic growth is important for employment creation and the reduction of poverty but it should not be achieved at the cost of a continued deterioration of the global environment. It is thus important to avoid sources of growth detrimental to the environment and that are based on unsustainable patterns of consumption and production. At the same time it is important to exploit fully the potential for growth and employment creation of activities which repair or limit environmental damage such as energy conservation, sustainable forms of energy production, improvement of public transport, recycling, and measures to maintain biodiversity.

11. Policies and programmes to expand employment opportunities for the poor in developing countries should also be environmentally sustainable. As called for in Agenda 21 the concept of sustainable livelihood serves as an integrating factor that allows policies to address issues of development, sustainable resource management and poverty eradication simultaneously. Other merits of the sustainable livelihood concept include its highlighting of the complexity of the survival strategies of the poor; its focus on the household as an economic unit; its identification of complex linkages between poverty and health, education and training; and its emphasis on civil society participation in employment/ livelihoods policy-making.

12. In addition to the core of policies which influence employment growth in general, there also needs to be special emphasis on the gender dimension. Since the 1980s, women have been providing the bulk of all new labour supply around the world while male participation rates have been consistently falling. But in many countries much of the employment expansion for women has occurred in the context of continuing gender segregation within the labour market and their entry into atypical or non-standard forms of work. Although some women have made inroads into previously male-dominated occupations and breached the "glass ceiling", the majority continue to be disadvantaged and to face serious discrimination in the labour market. Sources of such gender-based discrimination are numerous, but they can be traced to two related sets of factors. First, the burden of family responsibilities, unequal opportunities for human resource development and unequal access to productive resources all work to women's disadvantage in the competition for jobs and promotion. Second, specific structures in the economy and labour market, such as persistent occupational segregation and concentration, discrimination in pay, limited representation of women in economic decision-making and collective bargaining structures, and other implicit or explicit policies exclude women from certain economic activities and reinforce their subordination in labour markets.

13. In response to these problems of discrimination and disadvantage faced by women, comprehensive countervailing policies are called for. To provide more and better jobs for women, policies should be gender-sensitive and the legislative and regulatory framework should ensure gender equality. In addition institutional structures and administrative mechanisms should be strengthened and social supports should be provided to enable women to harmonize work and family responsibilities. The participation of women in decision-making has to be enhanced; and positive socio-cultural attitudes and perceptions towards women should be promoted. More specifically:

(a) To provide more jobs for women, productive and remunerative employment opportunities should be made equally accessible to women and men and education and training for women and girls should be promoted so as to enhance their recruitment, career and employment security prospects, and entrepreneurship development. Access to productive resources (including credit, technology and marketing) should also be improved so that women can go into viable self-employment or set up businesses. Special attention should also be given to doing away with occupational segregation now present in the labour market. Similarly poverty alleviation efforts should ensure that poor women have the opportunity to earn a livelihood and support their families.

(b) To help remove discrimination in the labour market and promote gender equality in access to jobs, there should be the adoption of an equal employment opportunity policy. There should also be legislation to ensure equal pay for work of equal value. These policies should be supported by prudent application of positive or affirmative action to deal with the effects of past discrimination on women workers. The Platform for Action of the Fourth World Conference on Women calls on Governments, employers, trade unions and women's organizations to "implement and enforce laws and regulations and encourage voluntary codes of conduct that ensure that international labour standards, such as International Labour Organization Convention No. 100 on equal pay and workers' rights, apply equally to female and male workers" (A/CONF.177/20, chap. I, resolution 1, annex II, para. 178 (a)).

(c) To improve conditions of work for women, action should focus on improving occupational safety and health measures; and promoting family-friendly workplaces that enable workers to better combine work and family responsibilities. In particular, measures should be implemented to combat workplace discrimination against pregnant women, inadequate maternity benefits and biases against working mothers. There should also be special attention given to promoting social protection for vulnerable or marginalized groups of women workers, especially international female migrant workers, women in transition economies adversely affected by economic reforms and long-term unemployed older women workers.

(d) A particularly important recommendation is to improve employment security and working conditions for the increasingly large proportion of women workers who are in part-time, contract, seasonal, temporary, casual or home-based work. As more and more workers are going into non-standard forms of work, the challenge is to ensure that such non-standard forms of work are not sub-standard in terms of working conditions and social protection.

14. In addition to the detailed attention given to the employment situation of women, the Copenhagen Declaration and Programme of Action identify needed improvements in the design of policies and programmes to enhance employment opportunities for social groups with specific needs. Young people of working age everywhere continue to face unemployment or limited prospects for engaging in activities which provide them with an adequate livelihood and which can ensure them a footing on the ladder to a productive and secure future. At the same time, there is the opposite problem of the continued prevalence of child labour, often in inhumane and exploitative conditions. Such work not only blights the future of the children involved but also represents a short-sighted sacrifice by society. Investing in the nurture and education of these children would provide a high potential pay-off in the form of a more productive labour force. There are thus strong moral and economic arguments for eliminating child labour. But since this would mean that an economic safety valve, albeit a desperate one, is being blocked off for those involved, the elimination of child labour has to be achieved as part of a larger programme in which society provides alternative assistance or economic opportunity.

15. With this aim in view, ILO has developed and is implementing an extensive and innovative technical cooperation programme to support national efforts to eliminate child labour. Launched thanks to an important financial contribution

by the Government of Germany, the ILO's International Programme for the Elimination of Child Labour (IPEC) now receives support from a dozen additional donor Governments and is operating in 20 developing countries. IPEC activities are carried out in close cooperation with the United Nations Children's Fund (UNICEF) recently formalized through the signing of a letter of intent by the Executive Director of UNICEF and the Director-General of the ILO.

16. At the same time ILO is pursuing its normative work on child labour by promoting the ratification and implementation of the framework Convention No. 138, and by developing complementary standards focusing more sharply on the most intolerable forms of child labour as a target for rapid eradication.

17. In many countries older workers face obstacles to their continued employment while, at the same time, improved social security and pension provision have made it possible for more persons to opt for earlier retirement. Policy will in future need to give more attention to improving individual choice and flexibility: to allowing people to continue to work when they wish or need to do so, while encouraging those who can retire earlier to take up socially productive activities, remunerated or not, part-time or casual, as appropriate, and to create the conditions for this broader recognition of work and employment.

18. The range of employment opportunities for persons with disabilities needs to be widened. Much can be done by ensuring that regulations and public policy do not discriminate against persons with disabilities and by eliminating the negative stereotyping of persons with disabilities. To the extent possible, disabled persons should be encouraged and assisted to obtain employment in the "open market", and when this is not practical, appropriate adjustment in the workplace to accommodate persons with disabilities, and alternative forms of employment, should be emphasized.

19. It is also important to reiterate too that the Social Summit Programme of Action also calls for the full participation of indigenous people in the labour market and for intensified international cooperation and national attention to the situation of migrant workers and their families.

III. DEVELOPING COUNTRIES

A. Overall employment trends and problems

20. The problems of underemployment and unemployment remain serious in many parts of the developing world. On average, the labour force in developing countries has been growing at 2 per cent per annum, creating a considerable challenge of job creation for new entrants to the labour force (table 1). Added to this is the need to create higher productivity jobs for the large proportions of the current employed labour force who are engaged in low-productivity jobs in the rural and urban informal sectors that do not offer an escape from grinding poverty. Further pressure for employment creation in the urban industrial sector is generated by continuing rural to urban migration. There are thus huge unmet aspirations for more productive and better remunerated jobs in many developing countries. The benefits of effective population policies which

reduce the rate of population and increase the labour force are therefore quite clear.

21. The overall picture with respect to past employment varies considerably from region to region. With few exceptions, the rapidly growing economies in East and South-East Asia have seen sustained and high employment growth in the past two decades. The rate of employment creation has generally exceeded the rate of increase in the labour force. Moreover, there has been a high growth rate in manufacturing employment and of real wages in that sector, indicating a rapid shift of labour into modern sector employment. In Latin America and the Caribbean, the overall employment growth declined sharply during the years of debt crisis (1981-1985). It has since recovered. But for the most part, the current employment growth is still at a lower level than that in the pre-crisis period. Information is particularly limited on North Africa and the Middle East, as well as sub-Saharan Africa. Scattered data show that the employment situation has deteriorated throughout the region at the end of the oil boom, or as a result of a prolonged period of poor growth. In some countries, there has been a clear trend of rising open unemployment while in others there has been an adverse shift in employment towards low productivity segments of the informal sector. There has been a continued decline in the share of employment in the agricultural sector and a fairly generalized increase in manufacturing and other secondary sector activities (table 2.A). However, real earnings and productivity in the industrial sector have stagnated, even declined, in most developing countries outside East and South-East Asia. But the most striking feature of the recent development in employment structure is the general and significant increase (by 2 to 15 percentage points) in service sector employment. As the growth of manufacturing and other modern sector employment is lower than the growth of urban labour force, much of the rise in service sector employment has concentrated in the urban informal sector, which is characterized by low-productivity and severe underemployment. Notwithstanding this, it is important to note that the service sector is an important source of future employment growth since many service activities are labour-intensive and include high-productivity activities which support the growth of the modern sector.

Table 1. Labour force, employment growth and unemployment rates

	Growth of labour force (percentage, average annual growth)			Total employment growth (percentage, average annual growth)			Total unemployment rate		
	1975-1980	1981-1985	1986-1993	1975-1980	1981-1985	1986-1993	1975-1980	1981-1985	1986-1993
Latin America									
Bolivia	2.13	2.70	2.71	2.68	-0.38	1.97	5.48	13.50	19.50
Chile	2.54	2.58	1.98	3.74	0.95	3.33	12.92	14.30	6.01
Costa Rica	4.03	3.07	2.47	4.01	2.74	3.62	5.22	7.78	4.93
Jamaica	3.32	2.96	2.50	0.92	2.30	2.16	24.30	26.10	18.23
Panama	2.53	2.96	2.74	3.42	3.79	2.35	7.74	10.13	14.10
Nicaragua	2.70	3.78	3.94					3.20	8.33
Trinidad and Tobago	1.75	2.57	2.09	1.56	0.25	0.44	12.28	12.04	20.18
Venezuela	4.83	3.48	3.09	3.91	1.81	4.10	5.53	9.92	8.81
Barbados	1.92	1.46	1.48	0.34	-2.08	0.52	13.54	15.06	18.29
Puerto Rico	1.71	1.73	2.26	2.45	0.48	3.30	18.28	21.74	16.13
Suriname	1.55	2.35	2.82			-1.24			16.43
Asia									
Pakistan	2.97	3.24	2.66	3.32	2.07	1.93	3.60	3.74	4.09
Thailand	2.85	2.48	1.93	4.28	2.95	3.17	0.78	2.72	3.13
Korea, Republic of	2.44	2.65	2.07	3.68	1.83	3.41	4.00	4.16	2.74
Hong Kong	4.50	2.05	1.91	5.72	2.63	1.30	4.65	3.76	1.76
Singapore	4.19	1.88	0.98	4.95	2.99	3.28	3.82	3.10	3.21
Fiji	2.69	2.26	1.95					7.40	7.06
Philippines	2.09	2.54	2.50	1.11	3.47	2.34	4.40	5.78	8.35
Sub-Saharan Africa									
Cote d'Ivoire	2.38	2.70	2.54	6.68	-2.89	-1.04			3.0
Ghana	2.69	2.66	2.85	1.48	11.04	-13.29			0.7
Senegal	3.30	1.87	2.00						0.4
Benin	2.21	2.04	2.35						0.4
Burkina Faso	1.91	1.94	2.09						0.5
Burundi	1.31	2.02	2.34	6.58	1.35	0.26			0.3
Central African Republic	1.33	1.34	1.64	-3.36		-4.69			0.5
Niger	2.04	2.25	2.52						0.6
Sudan	2.70	2.81	3.00						0.1
Ethiopia	2.03	1.74	2.10						1.6
North Africa and the Middle East									
Morocco	4.09	3.25	3.17						15.55
Turkey	1.59	2.30	2.05			8.03		11.53	

Source: Computed from ILO Yearbook of Labour Statistics, various years and World Bank, World Tables 1995.

Table 2. Features of employment in developing countries

A. Sectoral composition of employment (percentage of total)

	1971			1980			1990		
	A	M	S	A	M	S	A	M	S
Republic of Korea	48	13	37	34	22	43	17	27	56
Malaysia	52	9	36	37	15	46	27	20	53
Thailand	72	8	19	71	8	21	60	11	28
Indonesia				56	9	34	53	11	35
Philippines	51	12	36	51	11	37	45	10	44
China				69	16	15	60	17	23
Bangladesh	74	7	19	69	8	23	65	14	21
India				71	13	16	65	15	21
Pakistan	58			53	15	33	47	17	36
Sri Lanka	50			45	12	44	48	16	37
Mexico				26	14	60	22	20	58
Brazil				30	17	53	23	15	62
Peru				40	16	44	34	13	53

Note: A = agriculture, m = manufacturing, mining and utilities, S = services.

Source: Khan (1994).

B. Share of rural non-farm activities in rural labour force (percentages)

Regions	1960	1970	1975	1980
Continental Latin America	5.9	10.3	12.8	15.0
Central America and Caribbean	14.6	19.3	22.0	24.3
Middle East and North Africa	14.4	13.4	13.1	14.1
West Africa	15.4	20.7	23.4	26.3
East Africa	6.6	6.2	9.3	10.8
South Asia	10.9	13.8	15.5	17.5
South-East Asia	11.2	17.5	19.7	22.0
China	8.0	13.5	16.5	19.7

Source: Saith (1992).

C. Share of informal sector in non-agricultural employment (Latin America)

	1990	1994
Latin America	52.1	55.7
Argentina	47.5	52.5
Bolivia	56.9	61.3
Brazil	52.0	56.4
Colombia	59.1	61.6
Costa Rica	42.3	46.2
Chile	49.9	51.0
Ecuador	51.6	54.2
Honduras	54.2	51.9
Mexico	55.5	57.0
Panama	40.4	40.2
Paraguay	61.4	68.9
Peru (1)	51.8	56.0
Venezuela	38.8	44.8

Source: ILO, based on Household Surveys and other official sources.

(1): Corresponds to Metropolitan Lima.

22. This generally poor employment performance has occurred in the context of a slowing down of the rate of economic growth since 1980. For developing countries as a whole, average GDP growth declined from 5.2 per cent in the 1970s to 2.9 per cent in the 1980s and early 1990s. Excluding the dynamic Asian economies, where strong growth has been sustained for the last two decades, the slowdown of growth in the rest of the developing world becomes even more dramatic. Growth in many countries in Latin America and sub-Saharan Africa was adversely affected by problems of external indebtedness during this period. Some recovery has since been recorded, but growth rates have yet to match previous levels. For countries in Northern Africa and the Middle East, the end of the oil boom brought about the collapse in the inward-looking strategy of industrialization, heavily financed by oil revenues.

B. Overall policies for promoting growth and job creation

23. A return to higher growth is thus required. A high rate of investment, together with the efficient use of available capital, have been two of the major explanatory factors behind the rapid economic growth in East and South-East Asia. To achieve the goal of higher growth, Governments in developing countries should strive to ensure a certain level of political and social stability, to implement policies that encourage high savings, and to provide strong and stable incentives to both local and foreign investors. The increasing globalization of the world economy is creating many opportunities for developing countries, who in order to seize these opportunities, need to shift to outward-looking strategies and emphasize the strengthening of their international competitiveness. But they should avoid policies that merely concentrate on lowering labour costs because this is likely to lower worker motivation and productivity, thereby preventing any lowering of real unit labour costs or improvement in international competitiveness.

24. As one of the preconditions for economic growth, macroeconomic stability has to be achieved before any reform policies can be carried out. To this end, it is necessary to reduce unsustainable fiscal and balance-of-payment deficits. This process has, however, to be carefully managed. For example the experiences from some early structural adjustment programmes have shown that by cutting all current public investment, the stabilization policies could lead to excessive contraction of output and loss of jobs. Apart from getting the dosage right, it is also imperative to avoid inconsistent policies. For example a strict anti-inflation policy based on the prolonged use of fixed exchange rate as an anchor runs the danger of a return to currency over-valuation and a subsequent currency crisis that seriously sets back the reform process. Continuing over-valuation of the exchange rate in turn inhibits export growth, and the high interest rates required to support the exchange rate depresses domestic demand unduly. Furthermore, such a policy attracts large short-term capital inflows and increases the vulnerability of the whole reform to sudden capital flight. Therefore, instead of overly concentrating on reducing current deficits, developing country Governments should strive to increase domestic savings and investment and to build a stronger fiscal capacity to correct macroeconomic shocks. This would inspire greater confidence among investors and facilitate the adherence to a stable growth path. Compounding the problem, many developing countries lack the capacity to design and implement programmes to compensate for

the negative effects of economic reforms. The combined result of such policy overshooting and the absence of compensatory measures is the high social cost, including high levels of unemployment in many adjusting countries.

25. An outward-oriented policy regime is vital in countries starting on industrialization and having large surpluses of cheap labour. The most direct way of ensuring this is to follow a strategy approximating free trade. However, a radical, across-the-board trade liberalization is likely to lead to unnecessarily high social costs where there are serious supply-side constraints to export growth such as bottlenecks in infrastructure, shortages in infrastructure, and inadequate access to credit. This problem would be compounded where there is little real effective devaluation of the exchange rate. In such a circumstance, imports would increase more rapidly than exports, job losses would greatly exceed job creation and there would be strong pressure on the balance of payments. In such cases a more gradual and selective approach to trade liberalization may be warranted.

26. In addition, recent experience has shown that the successful attraction of foreign direct investment can be a powerful spur to rapid industrialization and employment creation. Indeed, adopting effective policies to this end is an important means of gaining access to the benefits of globalization. In order to maximize the impact on employment creation, incentives could be provided for foreign investment to enter activities that are employment intensive, areas that suffer from high unemployment, and to promote technologies that are compatible to the skill levels of the host country. However, such incentives should not distort long-term economic forces and their aim should be to remedy market failures.

C. Policies towards the informal sector

27. While an important part of the long-term solution to the employment problem is to restore higher rates of growth of modern-sector employment, there are nevertheless undeniable benefits in promoting the informal sector (table 2.B). First, many of its activities are labour-intensive. The informal sector thus provides a relatively easy way to create and expand employment, and a source of subsistence or "safety net" income for poor households. Moreover, the successful experiences of small-scale enterprises in East Asia and the urban-based informal sector in Latin America have demonstrated that by interacting and competing with the formal sector, these small-scale or informal activities are not only a "sponge" for extra labour, but also an alternative source of rapid growth. It is therefore important for the policy makers in the developing countries to actively support the growth of such activities.

28. This should include action to remove unnecessary regulatory obstacles to enterprise formation and growth, and measures to improve access to credit. In many developing countries, the official regulations present a considerable handicap for the sector by requiring complex administrative procedures and excessively high standards of products and processes, and by limiting location. Such regulations encourage the development of an illegal sector that damages the informal sector's operations. The appropriate policy response is to bestow secure property rights to the land, squatter housing and other productive assets

assembled by the poor, and to remove administrative obstacles and controls that prevent the growth of micro-enterprise and small-scale businesses. This removal of regulatory obstacles must, however, be "accompanied by the protection of the basic rights, health and safety of workers and the progressive improvement of overall working conditions, together with the strengthening of efforts to make some enterprises part of the formal sector".[5]

29. The informal sector typically consists of both dead-end survival activities and small-scale activities with the potential for growth and technical upgrading. The main aim of policies should therefore be to increase the modernizing element of the sector. This requires both better supply conditions in terms of capital, technology, skills, infrastructure, etc., and improved demand conditions, which depend on the developments in the rest of the economy. With appropriate support, small firms can have an advantage in capturing a fraction of markets in new, previously unimportant products, even in fiercely competitive export markets. But this has to rely on the building-up of cooperative institutions between firms, between suppliers and finishers, between local authorities or national bodies and industry associations. In addition, policy makers in developing countries can stimulate investment by improving the access of small enterprises to formal sector credit. It has been widely agreed that access to credit rather than the cost of credit is the bottleneck for small-scale enterprises. Very small enterprises face special problems because of a lack of collateral. So successful credit schemes must by-pass normal collateral requirements and substitute alternatives such as group guarantees. What developing country Governments need to bear in mind is that in order to improve the productivity of investment in developing countries, it is of particular importance to improve the functioning of the capital market through institutional innovation, better regulation of the banking sector, supporting credit programmes targeted at specific groups, and increasing the supply of venture capital.

D. Policies to promote rural employment

30. Given the continuing high proportion of the labour force that are still employed in the rural areas in many developing countries, priority has to be given to efforts to expand productive employment in this sector. The process of adjustment to the global economy creates potential benefits for the agricultural sector. The implementation of the Uruguay Round, for example, opens new opportunities for agricultural exports from developing countries. Economic reforms often result in a shift in the terms of trade in favour of agricultural producers. These changes have led to the improved economic position of many farmers in some developing countries, but a great number of small and marginal agricultural producers, especially those in ecologically fragile and remote areas, are handicapped in their access to productive resources, and cannot benefit fully from the improved overall environment and better price incentives.

31. There is thus a strong argument for continued State support to the small farm sector. This is desirable on both equity and efficiency grounds. Agricultural performance in many developing countries, notably those in sub-Saharan Africa, Latin America and south Asia, has been affected negatively by cutbacks in credit programmes and reductions in public investment in

infrastructure and extension services. All of these not only work to weaken the productive capacity of small farmers, but also pave the way for disequalizing changes such as the strengthening of the position of larger farmers and the growth of capital-intensive agro-business. These trends need to be reversed. To neglect the small farm sector would aggravate the handicaps of the poor, who are concentrated in that sector and face the least prospects for finding alternative employment in the capital-intensive and mechanized agricultural sector. Moreover, small farms are typically more adaptable than their larger counterparts. With adequate support, the small farm sector can adapt quickly to new incentives and become competitive. Therefore, the main objective of rural policies in this sector should be to upgrade production and to increase its integration into the economic mainstream.

32. Where land ownership and holding are highly unequal, there would be a case for considering land and tenancy reform measures. Land redistribution towards the disadvantaged could significantly improve their prospects of securing good quality employment. Evidence remains persuasive that there is an inverse relationship between farm size and land as well as labour productivity, and between the degree of inequality in the distribution of assets and the rate of economic growth.[6] Therefore, the benefits from such land reform measures lie not only in the reduction of poverty, but also higher growth of output. But it has to be recognized that past strategies of redistribution were often poorly designed and implemented. There was inadequate attention to the supportive macroeconomic environment and to the minimization of microeconomic distortions or leakages to the non-poor. Very often, employment generation programmes were nullified by macro-policies that favoured labour displacement, and credit programmes failed to ensure adequate financial discipline and loan repayment incentives. Thus, while the case for redistributive reforms remains strong, it is important to avoid the past mistakes and focus more on incentive-compatible poverty alleviation measures. For example, instead of relying on compulsory land redistribution, the objective of a more equal access to land could be achieved through moderate inheritance taxes, progressive rural income tax schemes, and market-friendly measures to increase the poor's access to land.

33. In recent years there has been increasing interest in promoting rural non-farm activities, particularly in rural industries. This change derives basically from the recognition that with the high growth of labour force and the improvement of agricultural productivity, agricultural work alone cannot fully absorb the rural labour force. Given the seasonal nature of most agricultural activities, there has always existed a demand for employment outside agricultural production in the rural sector. In addition to providing employment for agricultural workers during the slack season, the rural non-farm sector is traditionally relied on for simple farm machinery, as well as consumer goods. By all indications, the rural non-farm sector has grown steadily since the 1960s in most developing countries (table 2.C). It now accounts for up to a quarter of all rural force. While in some cases these activities are merely a sponge for surplus labour with no real prospect for providing an adequate level of living, in others they are characterized by high labour productivity and demonstrate strong growth potential. The rapid development of small town and village enterprises in rural China has had an undeniable impact on both the growth of the rural sector itself and on spreading the benefits from the economic reform process. To some extent, support for the development of rural

non-farm sector parallels that of urban informal sector. This requires assistance in the areas of technology, finance and extension services. Given its rural location, the importance of infrastructure cannot be overemphasized.

34. Most developing countries are characterized by an abundance of labour relative to natural and physical capital, as well as a high degree of inequality in the distribution of income and productive assets. In this context, even if everyone is employed, the wages received by low-skilled labour tend to be low. The combination of high income inequality and low wage rates means that poverty is more likely to be widespread. Moreover, even under the best of circumstances, there is likely to be considerable slack in the labour force in both rural and urban areas. This can take the form of year-round or seasonal unemployment or part-time employment with lengthy periods of joblessness. A number of developing countries have experimented with labour-intensive public works programmes. Their experience suggests that a guaranteed employment scheme could be a viable and valuable policy initiative for poverty alleviation. A guaranteed employment programme should concentrate on building up productive assets that can be expected to raise output and incomes in the future. It should not be regarded as a short-term measure to provide emergency relief, or as a welfare programme for income transfer. Rather, it should aim to generate employment and to reduce poverty by mobilizing otherwise unused resources for physical capital formation and by accelerating labour-intensive investment. Such a programme should act as a residual source of employment, at a wage no higher than the going market wage for landless agricultural labourers. It would thus provide a kind of safety net for those capable of productive work.

35. The participants would receive two types of benefits from such employment schemes. Besides the subsistence wages that they would receive during the period when they work, to the extent that the assets created under the scheme generate a permanently higher demand for labour, they should enjoy higher market wages and/or more days of employment in the future. Granted, most of the benefits thus created are likely to accrue to landowners in the form of lower costs, higher output, and higher land rents. But considerable scope exists for simultaneously transforming idle labour into physical capital and workers into shareholders in cooperative enterprises. For instance, a timber cooperative could be organized around a tree-planting project; a fishing cooperative could be based on an artificial pond; etc. Such an approach could combine job creation and poverty alleviation with an improvement in the distribution of wealth.

E. Labour market regulation

36. A controversial aspect of economic reform and employment policy in developing countries is whether there is a need to undertake extensive deregulation of labour markets. It is often argued that excessive government intervention in labour markets, in the form of job security regulations, social security contributions, minimum wage laws, and unemployment benefits and trade unions, is a serious impediment to adjustment and should therefore be removed or relaxed. In support of this argument, the cases of Latin America and the newly industrialized countries in Asia are frequently compared. It has been observed that the over-regulated labour market in Latin America has entrenched labour

market dualism between a highly protected urban formal sector and a largely unprotected informal sector, thus impeded labour market adjustment to changing market forces. In contrast, it has been alleged that the Governments of some Asian newly industrialized countries not only abstained from labour market interventions, but also actively repressed the independent activities of trade unions. This, it has been contended, has been an essential factor behind the successful implementation of export-led development strategies.

37. Undoubtedly, there is some truth in these arguments. But a close examination of the present cases reveal that while it is true that the obsolete labour market regulation in Latin America has created labour market rigidities in the urban formal sector and incentives for employment to expand in the unregulated informal sector, the movements in employment and real wages have nevertheless closely corresponded to movements in output and labour productivity. Thus there is no support for the presumption that labour market regulations are invariably sources of rigidity and that deregulation is always called for. Similarly, while trade union freedoms were indeed curtailed in many Asian countries, there is no hard evidence that restrictions on collective bargaining or interference with trade union rights have contributed to the economic success of the area. On the contrary, experience demonstrates that excessive government interference with trade union rights and restrictions on collective bargaining leads to a progressive build-up of industrial relations tension and eventually can result in severe public protests and widespread strikes, with detrimental effects for economic and political stability. Moreover, increased protective legislations in these countries since the 1980s do not appear to have impeded continued growth. In addition, it is often argued that minimum wages in developing countries are distortionary, because they are set too high relative to the average income, thus raising production costs in the formal sector and discouraging employment. However, such minimum wage interventions seem to be far from the norm in most developing countries. Nor are the levels, which have decreased in the past decades, excessively high by international standards. With respect to employment security provisions, for the most part, they are standardized across all regions, thus provide no explanation for the differences in relative international competitiveness among developing countries. Moreover, family allowances are not common in developing countries, unemployment insurance rarely exists, and social security contributions are generally lower than in OECD countries.[7] Therefore, while some parts of the labour market regulations in developing countries are no longer compatible with today's economic situation, whether or not there is a need for reform has to be ascertained from a specific examination of the empirical evidence. An effort should also be made to achieve the objectives of the existing regulation in a more efficient way rather than to assume that deregulation is automatically the optimal solution. It is equally essential that social partners be fully involved in the process of reform.

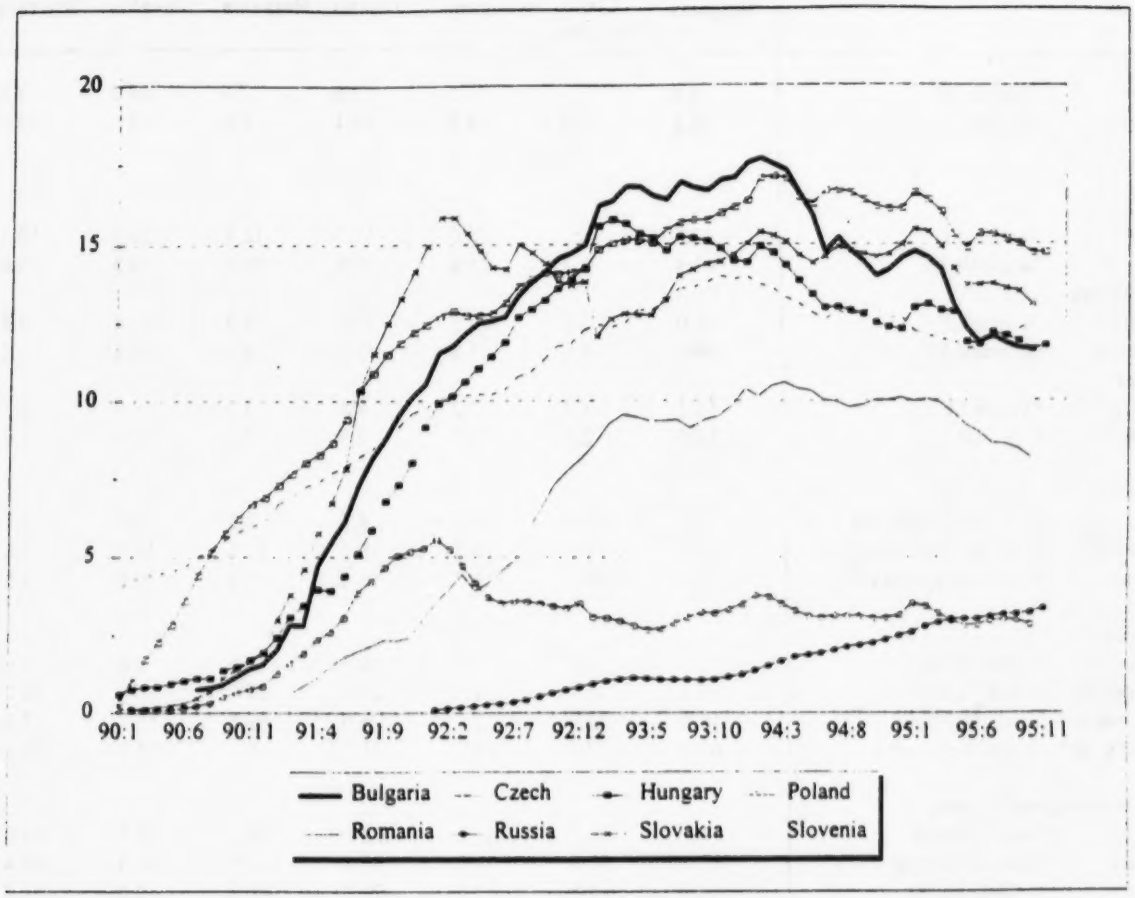
IV. TRANSITION ECONOMIES

A. Trends and problems

38. After the difficult first years of reforms, recovery is taking root in a majority of transition economies. Real GDP has been growing at 2 to 6 per cent annual rate in all Eastern and Central European countries since 1994; the Baltic States have definitely reversed the trend of negative growth seen in the early 1990s and are steadily moving towards economic growth; even in the former Soviet Union, where reforms were delayed in a number of countries, positive real GDP growth has been recorded in 1996.[8] Nevertheless, pressing problems remain in the form of high unemployment and rising poverty.

39. Currently, the unemployment rates in East and Central Europe average over 11 per cent and around 5 per cent in the Baltic States (fig. 1). Among the unemployed, between 30-60 per cent have stayed unemployed for more than one year, and many of them have drifted off the unemployment register when their unemployment benefits expire, even if they have not found new employment (table 3). Moreover, despite the rapidly increasing levels of unemployment in the region, the employment losses in the present period remain moderate in relation to output reduction. What this means is that unless production expands considerably, unemployment is expected to remain high as structural reforms deepen. Apart from the rise in unemployment, the collapse of output and high inflation have brought about a sharp decrease in real wages (between 20 and 90 per cent) in all countries between 1990-1995.[9] Meanwhile, the first years of reforms have seen a rising concentration of wealth in transition economies. The share of income in the top 10 per cent of the population have increased up to 20 per cent at the expense of the bottom half.[10] In this context, a large segment of the population have now fallen below the poverty line.

Figure 1. Unemployment rates, selected transition economies, 1990-1995



Source: OECD-CCET: Labour Market Database, 1995/N.2.

Table 3. Features of unemployment, selected transition economies, 1995

		Bulgaria	Czech Republic	Hungary	Poland	Romania	Slovakia	Slovenia
Sex								
Male	% male LF	18.6	3.7	12.5	13.6	7.5	14.3	7.6
Female	% female LF	19.8	4.8	8.8	16.1	8.6	14.5	7.0
Age								
Youth								
Male	% male LF	42.6	8.2	26.0	31.7	18.8	29.2	18.3
Female	% female LF	41.8	8.7	15.8	35.9	23.1	24.8	19.6
Prime-age								
Male	% male LF	16.0	2.8	10.8	12.2	6.3	11.4	6.8
Female	% female LF	16.9	4.5	7.8	15.2	8.3	12.8	5.2
Older								
Male	% male LF	13.1	1.9	7.2	8.8	3.4	9.3	3.7
Female	% female LF	13.5	2.5	4.7	7.7	2.4	8.9	2.9
Education								
Higher	% LF with higher ed.	6.7	1.2	2.9	4.2	2.2	3.4	2.1
Secondary	% LF with secondary ed.	17.1	3.4	10.2	16.2	11.4	13.1	7.6
Primary	% LF with primary ed.	30.4	10.7	16.7	16.4	5.2	30.0	9.5
Duration								
< 1 month	% total unemp.	2.3	14.8	6.9	6.2	2.7	5.0	4.9
1-6 month	% total unemp.	19.4	38.1	24.7	28.1	38.5	26.0	19.5
7-12 month	% total unemp.	15.8	20.0	22.8	24.0	13.5	16.3	17.1
> 12 month	% total unemp.	62.2	27.1	45.7	41.7	45.3	52.8	58.5
Long-term unemployment								
Male	% male unemp.	61.7	26.2	46.0	38.2	46.2	49.8	59.0
Female	% female unemp.	62.8	28.0	46.0	45.1	47.9	53.4	48.4
Youth	% youth unemp.	51.7	18.5	32.3	29.0	41.7	40.0	62.5
Older	% older unemp.	31.1	28.6	42.2	44.8	48.4	62.7	100.0
Discouraged workers								
Male	% male unemp.	27.2*	5.6	26.9	8.8**	63.8	2.4**	
Female	% female unemp.	22.8*	5.8	19.2	9.1**	37.4	3.0**	

Note: * 1993; ** 1994.

Source: OECD-CCET: Labour Market Database, 1995/N.2; Short-term Economic Indicators, 1/1996.

B. Policies to reduce unemployment

1. Sustaining economic recovery

40. The fundamental solution to these problems lies in the continued recovery and rapid growth of output and productive jobs. Governments should thus gear towards this end when designing their reform policies. In this context, it is important for transition governments to adopt policies centred on raising investment and domestic demand, thus raising employment creation. Similarly, public investment in improving infrastructure and the quality of the labour force has a vital role to play in promoting increased international competitiveness.

2. Promoting private enterprise

41. One key element in a well-functioning market economy is a robust private business sector. In transition economies, there is a clear need to reduce the many obstacles to enterprise creation and growth that still exist extensively.[11] Among the various constraints, it is the problem of inadequate financing that has proved to be the biggest impediment to enterprise development. The financial problems of the private sector in transition economies derive from a multiplicity of factors. One of the biggest problems is the lack of access to credit for many private businesses. As a result of high interest rates and opaque loan appraisal procedures, credit is often excessively expensive for private entrepreneurs to commit themselves to long-term loans, thus limiting the scope of many businesses. Moreover, the difficulty in working with banks adds to the private entrepreneurs' frustration in obtaining loans; the existence of many different credit regimes, some with preferential interest rates associated with special incentive programmes, has sometimes led to more discord and red tape than benefits. Therefore, to facilitate access to credit for private business, the transition governments should consider lower interest rates and streamline loan applications. A more transparent banking system and a set of clearly spelled-out credit programmes should be established as soon as possible. In addition, delinquent payment by State-owned enterprises (SOEs) for goods delivered have also created serious problems with working capital for many private businesses. This is a particularly serious problem for those enterprises that work closely with SOEs and depend on large orders from a few State clients. To solve this problem, the transition governments should push forward with enterprise restructuring on the one hand in order to increase the productivity and profitability of SOEs, and establish the necessary legal procedures for collecting delinquent payments on the other.

42. With regard to regulatory obstacles, many entrepreneurs in transition economies have found that politicians have shifted regulations or budget allocations too rapidly and often without warning. The lack of clarity and stability of government regulations have often forced many business decisions to be based on speculations and rumours about future policies. Such problems are particularly serious for businesses located far from the capital, where many of them are frustrated by the red-tape and fees that are enforced by local officials, and the pervasive practices of clientelism, bribery and absenteeism further exacerbate the situation. Such uncertainties over policy development

and legal provisions not only hinder the growth of a healthy private business sector, but also deter foreign direct investment from flowing into the region. Therefore, to create the proper business environment in these countries, the transition governments need to take a long-term policy stance, increase regulatory clarity and build an efficient bureaucracy.

43. Finally, high tax rates add to the burden of private businesses in transition economies. Apart from the usual value-added taxes and social welfare contributions, many private enterprises are subject to a range of other taxes at various levels of business. Such a heavy tax burden discourages the creation of private enterprises, and at the same time, it creates a strong incentive for tax evasion. A lowering of the tax rates may thus be called for.

3. Building efficient labour market institutions

44. The building of efficient labour market institutions should receive high priority in transition economies, to compensate for labour market failures and to provide safety nets for those who fall through the system. Any economy works better when those seeking jobs and employers can find each other more easily. This in practice requires a network of labour exchanges and supportive services. Such facilities were not immediately available in suitable forms or sufficient densities in formerly centrally planned economies. While some progress has been made to redress this deficiency much still remains to be done.

45. At the same time, systems of unemployment insurance and social assistance to provide poverty relief for those who have lost their jobs, the long-term unemployed whose entitlement to benefits has expired, as well as for other population subgroups with special needs, such as large families with young children need to be strengthened. An essential issue in the creation of an appropriate social protection system is the transfer of basic responsibilities from the enterprise to the State. The reform of these arrangements is necessary to reduce the drag on enterprise competitiveness and to improve labour mobility.

46. An important requirement for reform is the development of a collective bargaining system suitable to a market economy. The former "official" trade unions have had varying experiences since the beginning of the transition. The vast majority have introduced wide-ranging reforms to both their organizational structures and functions. These reforms have made the traditional trade unions both more democratic and responsive to the requirements of their members. At the same time new trade unions have emerged and are competing for members and influence. Unfortunately the economic climate has not been conducive to collective bargaining. Consequently trade unions have had difficulty in organizing workers in newly privatized enterprises and in extending collective agreements to small firms. In this context, it is important to develop a coherent trade union movement with the capacity to bargain effectively on wages and other aspects of the employment relationship. This is equally true with respect to employers' organizations. Such organizations did not exist under central planning and their development therefore needs to be actively supported in the context of the transition to a market economy. This is an important part of the institutional framework necessary to support the growth of a thriving private sector. It is particularly important to avoid a situation where such

organizations are dominated by State-owned enterprises or their little-changed successors, where a tendency would arise to focus on lobbying for fiscal privileges and continuing subsidies rather than on industrial relations issues proper. In addition, an adequate representation needs to be ensured of the emerging small and medium-sized enterprise sector.

4. Transitional employment subsidies

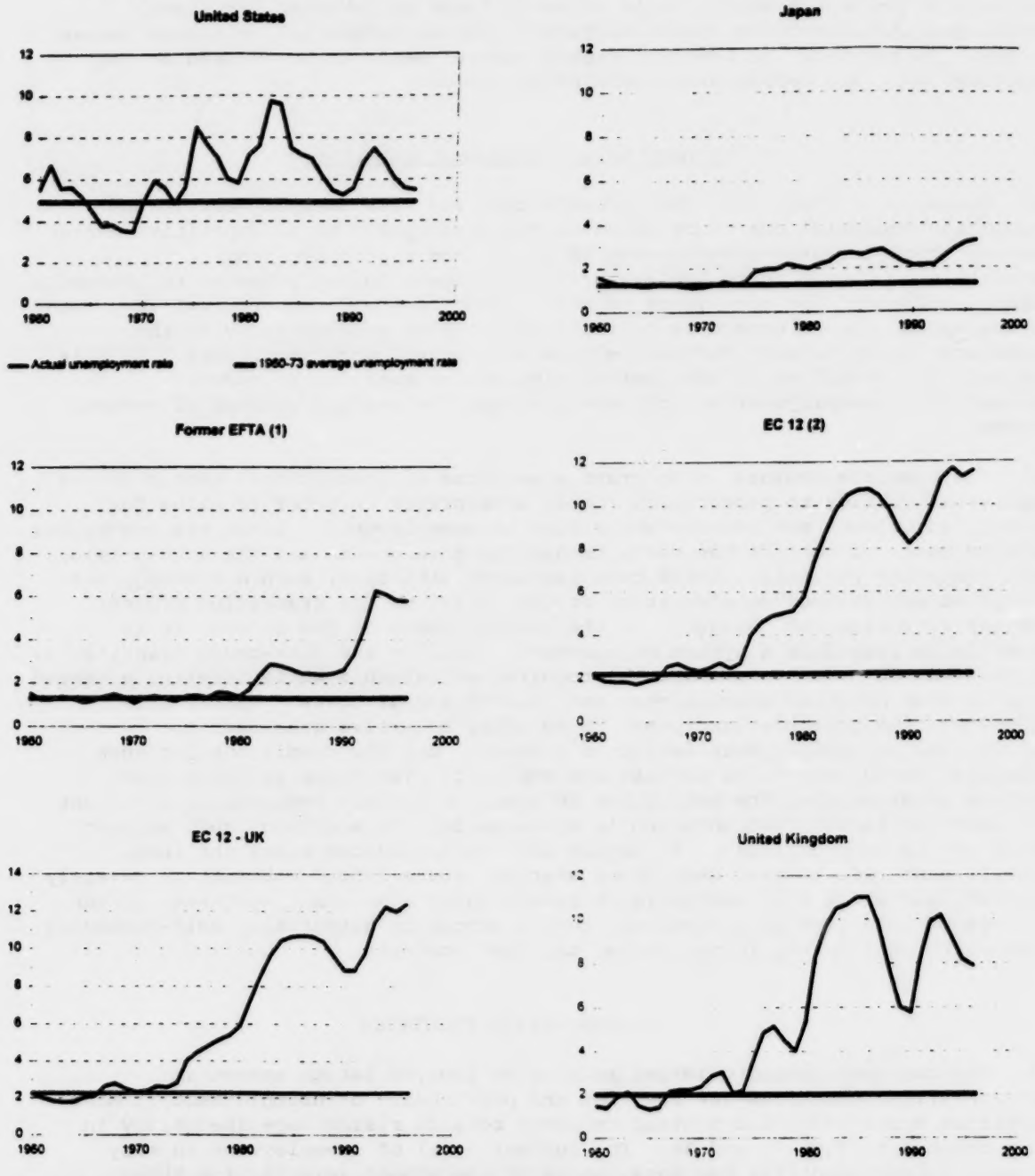
47. There is no doubt that the ultimate cure for mass unemployment in the transition economies has to be based on the development of a competitive market economy that generates rapid growth of output and productive jobs. Nevertheless, the route to achieving this is likely to imply having to live with high unemployment for some years to come. Even if the recent revival in growth is sustained, labour demand is unlikely to increase substantially in the immediate future because further reforms will entail more job losses. In this context, it is well worth considering alternative measures to reduce transitional unemployment without compromising the ongoing process of economic reform.

48. One possible measure is to grant some forms of transitional protection or employment subsidy to potentially viable enterprises in order to allow for orderly adjustment and avoid a sharp rise in unemployment. Given the precarious hold on power of most of the early transition governments and the apprehension that temporary protection would turn permanent with time, such a strategy was not given any serious consideration at the outset of the transition process. But the situation has changed. In the current phase of the reform, it is feasible to introduce a system of coherent, credible and time-bound transitional protection, in order to promote the required adjustments while offering a needed respite from mounting unemployment and related social costs. Within this framework, one possible instrument is to offer selective subsidies to enterprises on unemployment-avoidance grounds. But the conditions for such subsidies would need to be precise and explicit. Two basic criteria would include evidence that the enterprise in question is only temporarily insolvent and that the fiscal cost entailed is sustainable. In addition, such support would not be unconditional. It should only be introduced where the local unemployment rate is very much above average, where labour mobility is severely limited, and where high unemployment causes major tensions. Moreover, if the process of selection is scrupulous, such a scheme is potentially self-financing, thus worth considering in particular national contexts.

V. INDUSTRIALIZED COUNTRIES

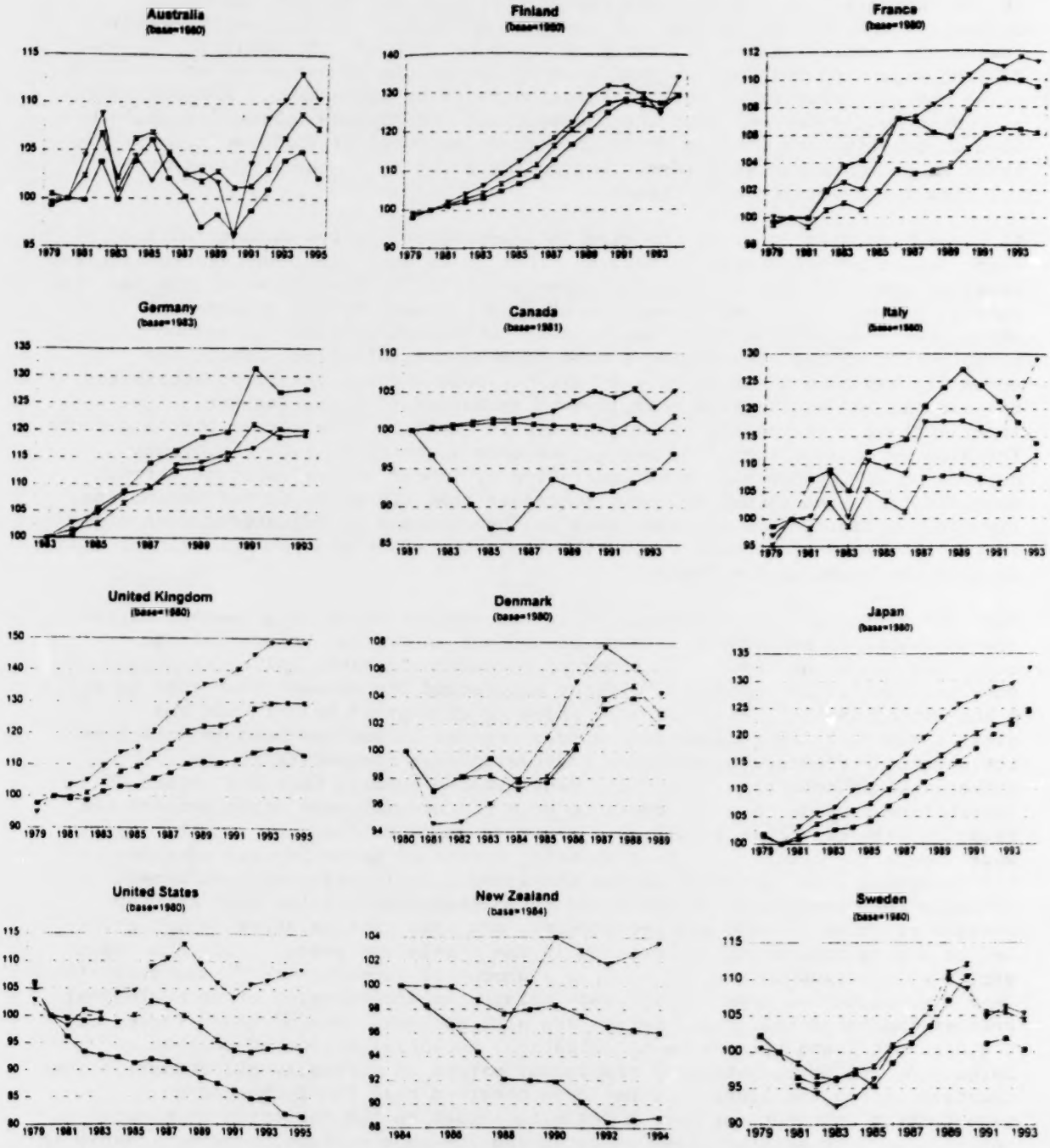
49. The two most pressing issues related to today's labour market in industrialized countries are the rise and persistence of unemployment in most countries since 1973, and a broad tendency towards rising wage inequality in many countries (figs. 2 and 3). The current level of unemployment in many industrialized countries has human costs of the utmost severity for those directly involved and has contributed to crime and the deterioration of community life from which everyone in society suffers. With regard to rising

Figure 2. Actual unemployment rate 1960-1996 compared to 1960-1973 average unemployment rate



(1): The term EFTA actually designates only Austria, Norway, Sweden and Switzerland.
(2): EC 12 designates the 12 countries that constituted the European Community up to 1995.
Source: OECD Economic Outlook, June 1996, and reference supplement. ILO calculations.

Figure 3. Trends in male real earnings of the bottom (D1), middle (D5) and top (D9) deciles



For Canada, Finland, Italy and New Zealand, the data have been interpolated for missing years.
Source: wage data series supplied by the OECD.

wage inequality this need not be regarded as a serious problem if it contributes to an expansion of employment opportunities of good quality, especially for low-skilled workers. However, if instead of this the rise in wage inequality reflects a fall in the earnings of low-paid workers to below poverty levels, then a new problem of the working poor would be created. In addition, if the falling wages induces the low-paid to drop out of the labour force or to turn to crime then the problem of social exclusion would be aggravated. Subject to the preceding qualification, high unemployment and rising wage inequality could be seen as constituting serious deviations from the ideal of full employment, but there is no consensus in academic and policy thinking on their causes or policies for reversing such trends.

50. Many analysts consider the rise in unemployment in the industrialized countries to be structural in nature. That is to say, the long-term equilibrium level of unemployment has risen in these countries in the course of the last two decades. Since this unemployment level is determined by the fundamental structural characteristics of the economy, it is not possible to reduce unemployment without triggering a rise in wage-led inflation. There are currently two main views as to why this has come about. The first attributes the rise in the equilibrium unemployment in Europe to labour market imperfections. It regards the rigidities in the labour market as the main cause for slow employment creation, and argues that a return to full employment depends on an improvement in the operation of labour market achieved through deregulation. The second argument considers that the major factor behind the rise in equilibrium unemployment lies in the slowness of adjustment mechanisms in the aftermath of serious supply shocks in the 1970s and the substantial rise in interest rates in the 1980s.

51. The widening of wage dispersion in the context of falling incomes of the low-paid workers has become a cause of concern in several industrialized countries since the 1980s. In order to formulate feasible policy responses to this problem, it is important to first understand its causes. But this is still a subject of debate. First of all, there is widespread belief that the globalization of the economy and rapid increases in manufactured imports from low-wage countries are responsible for rising wage inequality in the industrialized countries. However, many studies suggest that the impact of international trade is still small on both the overall wage structure and the relative wage of the less-skilled.[12] Another major explanation for the rising wage inequality centres on the displacing effect of technological advances in the industrialized countries during the 1980s. It is believed that recent technological changes are accompanied by increased demand for high-skilled workers relative to less-skilled workers, and that such relative demand shift led to a more pronounced discrepancy in their relative wages. But once again, empirical evidence in support of this argument is inconclusive.[13] The fact that wage dispersion had begun to increase before the acceleration of technological changes indicates that other forces are also at work. One of these forces is the distinct trend towards de-unionization, decentralization of collective bargaining and deregulation of the labour market in virtually all industrialized countries since the 1980s. It has been observed that these changes in wage-setting institutions have a definite impact on the declining economic position of less-skilled, less-educated and low-wage workers, most noticeably in the United States and the United Kingdom. In addition, the changing

macroeconomic environment has also played a role in shaping wage and employment patterns. The pre-1973 period was characterized by rapid growth of output, strong productivity gains, high demand of skill upgrading, and rising real average wages among all workers. In contrast the lower growth rates since 1973 led to a reduction in the rate of increase of high-paid jobs in the labour market. As a result the competition for such jobs increased and lesser-qualified workers were forced to accept low-paid jobs. This in turn further increased job competition at the low-skilled end of the labour market that was already hit by the fall in the demand for low-skilled workers. Seen in this broader perspective, the ultimate solution to the problem of rising wage and income inequality lies in the creation of a favourable macroeconomic environment conducive to growth and rising aggregate demand for labour. Only in this context will more jobs be created in the high-paid, high-productivity segment of the labour market. Moreover, it is only with a rising aggregate demand for labour that the problems of falling demand for unskilled workers and rising wage inequality can be stemmed.

52. The lack of consensus on the causes of the high unemployment and increasing wage inequalities revealed in the preceding discussion makes it difficult to prescribe a common programme for dealing with these problems. Nevertheless, three broad areas for policy action would appear to be worth considering in a wide range of industrialized countries. The first consists of policies to achieve a sustained increase in the rate of economic growth, since higher growth is the key to reducing unemployment and reversing the rise in inequality. Achieving this will require a wide range of policies to increase competitiveness; to raise the rate of investment in new production capacity, in research and development, infrastructure and skill development; and, where they are judged likely to provide an effective stimulus to growth, the pursuit of expansionary macroeconomic policies. The second issue worth considering is that of how to deal with a major constraint to sustaining higher growth arising from the danger of a resurgence of inflation as labour markets tighten. This will require a review of wage-bargaining systems and the exploration of alternative mechanisms for moderating wage inflation. The third area for consideration relates to the reform of labour market policies with a view to increasing incentives to seek and accept work, to updating the skills of those who have been excluded from work for a prolonged period, to facilitating labour mobility and "employability" security, to encouraging innovative forms of work organization, and to providing incentives for firms to hire low-skilled workers.

Notes

[1] See Report of the World Summit for Social Development, Copenhagen, 6-12 March 1995 (United Nations publication, Sales No. 96/IV.8), chap. I, resolution 1, annex I, sect. C.

[2] See International Labour Conference, Eighty-third session, Geneva, 1996, Records of Proceedings, resolution V.

[3] Ibid., Commitment 3, para. (i).

[4] Report of the United Nations Conference on Environment and Development, Rio de Janeiro, 3-14 June 1992 (A/CONF.151/26/Rev.1 (Vol. I and Vol. I/Corr.1, Vol. II, Vol. III and Vol. III/Corr.1)) (United Nations publication, Sales No. E.93.I.8 and corrigenda), vol. I: Resolutions adopted by the Conference, resolution 1, annex II.

[5] Report of the World Summit for Social Development, Copenhagen, 6-12 March 1995, chap. I, resolution 1, annex II, para. 44.

[6] M. Lipton: "Market, redistributive and proto-reform: Can liberalization help the poor?", Asian Development Review; vol. 13, No. 1, pp. 1-35; and S. Bowles and H. Gintis: "Productivity-enhancing egalitarian policies", International Labour Review, 1995/4-5, pp. 559-585.

[7] Table 5.8 in ILO, World employment 1996/97: National policies in a global context.

[8] Ibid., table 4.4.

[9] Ibid., table 4.3.

[10] Ibid., figure 4.4.

[11] See World Bank technical papers, #228-230 and 237, by L. M. Webster.

[12] G. J. Borjas, R. B. Freeman and L. F. Katz: "On the labor market effects of immigration and trade", in Borjas and Freeman (eds.), Immigration and the work force (Chicago, University of Chicago Press, 1992); J. D. Sachs and H. J. Schatz: "Trade and jobs in US manufacturing", Brookings Papers on Economic Activity, No. 1, 1994, pp. 1-84; R. C. Feenstra and G. Hanson: "Foreign investment, outsourcing and relative wages" (mimeograph), Oct. 1994; and A. B. Krueger: "Labor market shifts and the price puzzle relisted" (mimeograph), Oct. 1995.

[13] L. Mishel and J. Bernstein: "Is the technology black box empty? An empirical examination of the impact of technology on wage inequality and the employment structure", paper presented to the Labor Economics Workshop, Harvard University, Apr. 1994; and UNCTAD, Trade and Development Report 1995 (New York and Geneva, 1995), pp. 156-158.